

# EUROPEAN PARLIAMENT

2004



2009

---

*Session document*

**A6-0507/2008**

16.12.2008

## **REPORT**

on public finances in the EMU 2007-2008  
(2008/2244(INI))

Committee on Economic and Monetary Affairs

Rapporteur: Donata Gottardi

**CONTENTS**

	<b>Page</b>
MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION.....	3
EXPLANATORY STATEMENT .....	3
RESULT OF FINAL VOTE IN COMMITTEE.....	3

## MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

### on public finances in the EMU 2007-2008 (2008/2244(INI))

*The European Parliament,*

- having regard to the Commission communication of 24 June 2008 on Public Finances in EMU - 2008 – the role of quality of public finances in the EU governance framework (COM(2008)0387),
- having regard to the Commission communication of 13 June 2007 on Public Finances in EMU - 2007 – Ensuring the effectiveness of the preventive arm of the SGP (COM(2007)0316),
- having regard to the Commission communication of 7 May 2008 on EMU@10: successes and challenges after 10 years of Economic and Monetary Union (COM(2008)0238),
- having regard to its resolution of 26 April 2007 on public finances in the EMU 2006<sup>1</sup>,
- having regard to its resolution of 22 February 2005 on public finances in EMU - 2004<sup>2</sup>,
- having regard to its resolution of 12 July 2007 on the 2007 annual report on the eurozone<sup>3</sup>,
- having regard to its resolution of 14 November 2006 on the 2006 annual report on the euro area<sup>4</sup>,
- having regard to its resolution of 20 February 2008 on the input for the 2008 Spring Council as regards the Lisbon Strategy<sup>5</sup>,
- having regard to its resolution of 15 November 2007 on the European interest: succeeding in the age of globalisation<sup>6</sup>,
- having regard to its resolution of 15 February 2007 on the Situation of the European economy: preparatory report on the broad economic policy guidelines for 2007<sup>7</sup>,
- having regard to the Commission communication on The Contribution of Taxation and Customs Policies to the Lisbon Strategy (COM(2005)0532) and Parliament's resolution of 24 October 2007 thereon<sup>8</sup>,
- having regard to its resolution of 3 July 2003 on gender budgeting - building public

---

<sup>1</sup> OJ C 74 E, 20.3.2008, p. 780.

<sup>2</sup> OJ C 304 E, 1.12.2005, p. 132.

<sup>3</sup> OJ C 175 E, 10.7.2008, p. 569.

<sup>4</sup> OJ C 314 E, 21.12.2006, p. 125.

<sup>5</sup> Texts adopted, P6\_TA(2008)0057.

<sup>6</sup> OJ C 282 E, 6.11.2008, p. 422.

<sup>7</sup> OJ C 287E, 29.11.2007, p.535.

<sup>8</sup> OJ C 263 E, 16.10.2008, p. 441.

budgets from a gender perspective<sup>1</sup>,

- having regard to the resolution of the European Council on economic policy coordination in stage 3 of EMU and on Treaty Articles 109 and 109b of the EC Treaty, annexed to the Presidency conclusions following the meeting of the European Council in Brussels on 12 and 13 December 1997,
  - having regard to the conclusions of the Ecofin Council meeting of 4 November 2008 as regards international initiatives in response to the financial crisis and preparations for the international summit on the crisis,
  - having regard to the Commission communication of 29 October 2008 entitled ‘From financial crisis to recovery: A European framework for action’ (COM(2008)0706),
  - having regard to the conclusions of the Presidency conclusions following the meeting of the European Council in Brussels on 15 and 16 October 2008, in regard to strengthening the regulation and supervision of the financial markets,
  - having regard to the meeting of the Heads of State and Government of the Eurogroup, held on 12 October 2008, with a view to adopting a coordinated rescue plan to combat the economic crisis,
  - having regard to the conclusions of the Ecofin Council meeting of 7 October 2008 as regards immediate responses to the financial turmoil, and to the European Parliament resolution of 22 October 2008 on the European Council meeting of 15 and 16 October 2008<sup>2</sup>,
  - having regard to the conclusions of the Ecofin Council meeting of 14 May 2008 as regards ensuring the future efficiency and effectiveness of social expenditure and way forward on the analysis of the quality of public finances,
  - having regard to the conclusions of the Ecofin Council meeting of 9 October 2007 as regards the quality of public finances: modernisation of public administration,
  - having regard to the conclusions of the Ecofin Council meeting of 10 October 2006 as regards the quality of public finances,
  - having regard to Rule 45 of its Rules of Procedure,
  - having regard to the report of the Committee on Economic and Monetary Affairs (A6-0507/2008),
- A. whereas quality public finances (QPFs) targeting sustainable development signal our commitment to future generations, which is particularly important in the current situation of major upheaval on the markets,
- B. whereas there is a need to develop QPF policies, coordinated at European level, and

---

<sup>1</sup> OJ C 74E, 24.3.2004, p.746.

<sup>2</sup> Texts adopted, P6\_TA(2008)0506.

particularly in the euro area, which are framed and assessed on the basis of standardised common instruments and aimed at supporting growth throughout the period in order to meet the challenges of demographic change, globalisation and climate change,

- C. whereas the aim of public finances should be to support the macro-economic framework, provide public services and goods and counterbalance market failures and external impacts,
- D. whereas a conceptual and operational framework for QPF targeting growth, and making growth the ultimate reference point for the assessment of QPF, are inextricably linked with the consideration that Member States' budgetary and public expenditure policies must be oriented towards the maintenance and innovation of the welfare state, social security protection and the redistribution of resources,
- E. whereas the low level of public investment in the European Union (under 3 % of GDP), and its fragmentary nature, have adverse effects for the objective of sustainable long-term growth, which in fact requires targeted and prioritised public expenditure,
- F. whereas it is necessary and appropriate to approach the analysis and assessment of public finances, and the prospects for their sustainability, from a gender perspective,

#### ***Changes in economic trends during 2007 to 2008 - the economic and financial crisis and outlook***

1. Notes that the analysis of the public financial situation in 2007 and the first part of 2008 clearly shows a change in the economic trend and the looming prospect of a slowdown in the economy and growth, coupled with a continued lower rate of inflation and increasing income disparities;
2. Expresses its concern at the difficult economic and financial situation currently affecting Europe and the world, which is creating an unprecedented level of instability, and notes the new dynamics that are developing in the relationship between the public and private sectors and changes in monetary and economic policy where, in the face of market failures and a lack of rules and supervision, public sector intervention is reassuming a pivotal role, sometimes taking the form of outright nationalisation;
3. Points out that the crisis in strategic sectors, and especially in the fields of finance and transport, is spurring public investment in takeovers, without care being taken to limit those rescue operations to what is strictly necessary for sustaining and developing the European economy and to ensure they do not respond to purely national interests;
4. Considers that the Commission and the Member States must provide for an appropriate assessment of the repercussions for public finances of public sector support and participation in major industries and the financial and credit sector; would also consider it useful for those repercussions to be assessed in relation to competition, the functioning of the internal market and the maintenance of a level playing field;
5. Emphasises that the revised Stability Pact already allows for action to be taken in response to particularly serious situations and that financial consolidation and the objectives set in

the stability and convergence plans remain fundamental to the prospects for recovery and growth;

6. Points to the importance of a coordinated approach at European level to combat tax evasion and tax havens – in the interests of the public, the taxpayer and public accounts – especially at a time when financial consolidation and levels of public debt are liable to be adversely affected by the considerable public investments being made in support of major financial and industrial players;
7. Stresses that it is also in the interests of the public, the taxpayer and public budgets to ensure that every intervention and use of public funds for rescuing financial organisations is accompanied by appropriate supervision, concrete improvements in the governance and business conduct of the enterprise or institution, precise limits on the amounts paid to executives and clear accountability vis-à-vis the public authorities; feels it would be helpful, in that context, for the Commission to promote the introduction of guidelines to ensure a consistent and coordinated implementation of the various national action plans;
8. Takes the view that the wholesale public sector intervention in several Member States to rescue and support the banking and finance industry will have clear repercussions for public finances and personal incomes; considers it necessary, therefore, for the tax burden to be suitably and equitably spread among all taxpayers, entailing, on the one hand, the imposition of an appropriate level of taxation on all financial players and on the other, provision for a gradual and sharp reduction in the tax burden on mid to low-level salaries and pensions – with tax deductions, revised tax rates and compensation for fiscal drag - in such a way as to reduce poverty, and not just extreme poverty, and to promote consumption and a growth in demand, thereby responding counter-cyclically to the current economic crisis which presages a recession;
9. Stresses that European macro-economic policies must provide a swift and coordinated response to the risks of recession and financial instability, and urges the Commission and the Member States – and particularly those of the euro area - to make intelligent and unidirectional use of the flexibility in the Stability Pact and suitable counter-cyclical mechanisms aimed at structural change, efficient allocation of public funds, restructuring of public expenditure and investments for growth in line with the Lisbon objectives, devoting special attention to the role of small and medium-sized enterprises;
10. Emphasises, in that context, the need, particularly in the euro area, for a common approach on wage policies, which provides for wage increases in line with actual inflation and productivity, since fiscal and wage policies are powerful and effective levers on demand and for economic stability and growth;
11. Welcomes the fact that decision-making areas are beginning to emerge in which the Euro Group acts as the (prime) political and economic coordination body to pinpoint swift responses and jointly agreed strategies, not just in response to the economic and financial crisis, but also to revitalise macro-economic and joint investment strategies aimed at enhancing prospects for growth, averting serious repercussions on public finances and financial stability in the European Union and helping to achieve a better balance between economic and monetary policies within the European Union;

12. Considers that it would be useful to establish a compulsory mechanism for consultation and coordination between the Commission and the Member States – particularly members of the Euro Group – prior to the adoption of major economic measures, in particular as regards measures addressing the volatility of prices for energy, raw materials and foodstuffs;

***The sustainability of public finances and the effectiveness of the preventive arm of the Stability and Growth Pact***

13. Considers the sustainability of public finances to be a pre-condition and priority not only for stability and growth and the formulation of each Member State's macro-economic employment, social and environmental policies, but also for the future of the economy and the European social model intrinsic to the development of the European Union;

14. Expresses its deep concern over the direct consequences of the current international financial crisis on the sustainability and quality of public finances in the Member States; expresses particular concern over the impact of that crisis on the real economy and balance of payments in the new Member States, which are not within the euro area, and which are witnessing a drastic reduction in direct foreign investment;

15. Points out that deficit and public debt are having a negative impact on growth in so far as they limit the room for manoeuvre of Member States during periods of crisis; calls on the Member States to make greater efforts to consolidate their budgets and reduce the public debt during periods of growth as a pre-condition for achieving a healthy, competitive and sustainable European economy; points out also that ill-designed measures to reduce the deficit and public debt – such as indiscriminate cuts in public investment – have an adverse effect on long-term growth prospects;

16. Points out that in the light of new international circumstances due to the present financial crisis and the economic slump which has already begun to affect employment and growth in the euro area, rising deficits are difficult to avoid; suggests, therefore, that Member States make more targeted use of the flexibility provided by the Stability and Growth Pact (SGP) in order to encourage economic recovery and growth; draws attention to the budgetary implications of the current financial crisis, and calls on the Commission to evaluate the effects on Member States' public finances of the public funds used in the rescue plans for national financial institutions; calls on the Commission to examine the effects of the SGP criteria in the current context, when economic growth is slow and several Member States face the prospect of recession, and calls for an evaluation of the effects of the rising cost of credit on the public debt of Member States;

17. Notes that the revised SGP is functioning properly; considers that the corrective arm has been applied in a satisfactory manner in previous years and stresses the importance of the preventive arm as a vital instrument in respect of the sustainability and convergence of the financial policies of Member States, in particular those in the euro area;

18. Shares the Commission's views on the importance of the preventive arm of the SGP, on support and reminders for the Member States and on the exchange of best practices; agrees, in particular, that this arm should be based on a medium-term approach to budgetary policies and on coordination at a European level, given that effective action

requires joint understanding of the economic and budgetary policy challenges in the European Union and a strong political commitment to addressing these through counter-cyclical interventions that pull in the same direction;

19. Stresses the importance of the medium-term objective (MTO) as a specific budgetary target hitched to economic, fiscal and incomes policies, which should be achieved through macro-economic dialogue, geared to the specific situation in each Member State and determined on a multiannual basis; urges the Member States to strengthen the credibility and legitimacy of the MTO both at national, through closer involvement of government departments, national parliaments and the social partners (national ownership) and at local level, through sub-national public finance, by establishing regional SGPs and MTOs, taking account of the impact which local public expenditure and investment have on national public finances and on the growth prospects of the various countries;
20. Considers consistency between multiannual budgetary programmes and the establishing and implementation of annual budgets to be of fundamental importance; calls on the Member States for greater rigour when establishing macro-economic forecasts and closer coordination when establishing the criteria, timescales and objectives for multiannual expenditure frameworks, in order to ensure the increased efficiency and better performance of budgetary and macro-economic policies at European level;
21. Points out that Member States need additional structural reforms and more budgetary discipline, as well as anti-cyclical fiscal policies, reducing budgetary deficits in times of economic growth, in order to be better prepared for dealing with negative external shocks;
22. Stresses the importance of designing macroeconomic plans for tackling external shocks (such as the subprime financial crisis) that take into account not only the situation in the euro area, but also that in the catching-up economies of the European Union;

***Public finances - a key feature of a broader and more comprehensive economic approach***

23. Points out that the key objective of having sound and consolidated public finances should be defined on the basis of the obligations under the new SGP and, at the same time, the development, growth and competitive perspective of the Lisbon Strategy, which requires structural reforms, as well as public spending and taxation structures that will support investments (in human capital, research and innovation, education and training, including higher education, health, infrastructure, the environment, security and justice) and the redistribution of income in order to promote social cohesion growth and employment;
24. Stresses that public finance objectives, established on the basis of the integrated guidelines in the new Lisbon cycle, should link up stability and convergence plans with national reform plans in a coherent and organic manner; believes that the value added of healthy and growth-oriented European public finances should be reflected – in particular in the euro area - in a European public infrastructure investments policy, formulated and coordinated on the basis of shared objectives, that can be funded not only from national budgets and (partially) the EU budget, but also from new European financial instruments (e.g. Eurobond or the European Investment Fund) aimed at sustaining the growth, productivity and competitiveness of the European Union and the euro area in the international context;



25. Considers that it would be useful to establish a compulsory mechanism for consultation of the national parliaments, alongside the European Parliament, with an eye on the coordinated development of stability and convergence programmes under the SGP, and of national reform programmes under the integrated Lisbon guidelines, in such a way that these are linked and presented together, possibly in the autumn of each year;
26. Agrees that demographic change is making structural reform more necessary, in particular as regards pension schemes, public health and long-term care, and points out that it would be too restrictive to focus solely on the ageing population (and falling birth rate) without taking account of the impact of globalisation, including the unstoppable flow of immigrants coming from third countries not only for economic reasons but also as a means of fleeing war and climatic disasters;
27. Points to the importance of employment and social inclusion policies, taking due account of the needs of different generations, genders and people, based on the principles of flexicurity and thus pro-active measures to support wages and incomes by means of social dialogue giving priority to increasing productivity without neglecting measures to protect pensions, bearing in mind that inadequate pensions are not only a social problem but also give rise to an increase in social security spending and, as a result, higher costs for public finances;
28. Considers that the financial markets and services covered by Lisbon Strategy policies should be anchored to financial stability and to supervision mechanisms providing a guarantee of protection against negative repercussions for growth and public finances; expresses its concern at indications that derivatives and new financial instruments are being used, especially by local administrations, that could bring local areas to their knees;
29. Considers it necessary to adopt a new approach to public finances which is systematic and coordinated among the Member States, and in particular those of the euro area, and which aims to support long-term economic growth (and potential for growth) and is centred on a multi-dimensional framework for defining and measuring the quality of public finances that makes the European economy resilient to external shocks and enables it to respond to demographic challenges and international competition and to ensure social equity and cohesion;

#### ***The quality of public finances: revenue and expenditure***

30. Considers it essential that the Member States seek to implement (QPF) policies that are convergent and based on a method of assessment that includes indicators and objectives, the formulation and definition of which should involve the European Parliament and the national parliaments; considers the Commission proposal to be useful and advocates a system for assessing budgetary policies that focuses on specific aspects such as composition, efficiency and effectiveness of public expenditure, the structure and effectiveness of revenue systems, the efficiency and quality of public administration, sound budgetary management and a method for coordinating quality public finance policies among Member States; calls for a greater comparability of national budgets in order to meet the above objectives;
31. Urges the Member States to adopt QPF policies together with a system for assessing

budgetary policies – such as performance-based budgeting (PBB) (based on the OECD model) – aimed at improving the quality of public spending by strengthening the link between the allocation of resources and results; notes that gender budgeting is a good example of PBB, a method proposed and promoted by the European Parliament itself and applied to varying degrees at local and central level in the various Member States and which should be implemented more consistently, including at European level; calls on the Commission to establish PBB methods, guidelines and indicators making it possible to compare and harmonise the financial and macro-economic policies of the Member States, and acknowledges that this calls for greater involvement and therefore a greater sense of responsibility on the part of informed citizens;

32. Welcomes the reflection initiated by the Commission on how to introduce quality, effectiveness and efficiency in the revenue system; considers that the tax reforms of Member States will lead to greater growth only if they take due account of the specific conditions of the institutional and administrative system, the production system and the labour market (in particular the rate of employment and size of the underground economy), in each Member State;
33. Points to the existing disparities between Member States as regards tax pressure and structures; acknowledges the difficulty of devising a homogeneous reform of taxation leading to greater growth – given the advantages (broader base) and drawbacks (weakening of the principle of progressiveness) of a switch from direct taxation to indirect consumption-based taxation; stresses, however, that a number of common tax reform measures could significantly improve the efficiency of the tax system and tax revenue, increase employment, reduce distortions and increase growth at European level, notably, *inter alia*:
  - introducing a broader tax base (and lower rates) in order to reduce distortions and increase revenues,
  - reducing tax pressure on work through a fairer allocation of the tax burden among the various categories of taxpayers; a reorganisation of incentive and tax relief schemes and, in particular, a switch to other factors or sectors,
34. Draws attention to the fact that tax reforms aimed at sound public finances, growth, efficiency, simplification, the elimination of distortion and combating tax evasion and avoidance and tax havens will be more effective if coordinated and consolidated among the Member States, in particular those of the euro area, taking account of the internal market's potential for development and competitiveness;
35. Draws attention to the core issue of the composition of public expenditure aimed at sustainable growth and stresses that the quality and effectiveness of investments in infrastructure and human capital, with priority being given to services of general interest on the basis of a prior definition of people's needs and the composition of the population, and special attention to gender policies and demographic change, contribute to an increase in the productivity and competitiveness of the European economy; points out that the pressure on social and health services arising from the ageing of the population can be reduced through investment in health education; stresses that public expenditure

should be reorganised by reallocating budget items to growth-enhancing sectors, using public resources more effectively and efficiently and providing for an appropriate integrated public-private network;

36. Points to the need to reform and modernise public administrations, which are at the core of the system of public expenditure and revenue, and to ensure that they meet criteria relating to effectiveness, efficiency and productivity, responsibility and assessment of results, geared to the structure of public administration and the national and local institutions of Member States, and taking due account of the obligations and opportunities arising from the operation of the European Union, ensuring that the public sector is associated with sound budgets and contributes to a competitive economy;
37. Emphasises the central role of sound budgetary management, based on a set of rules and procedures aimed at determining how public budgets are to be prepared, implemented and monitored in the medium term, taking account of the Member States' budgetary consolidation and the reorganisation of public expenditure, to be accompanied by a context analysis method (at Community, national and local level) and the definition of objectives, including prior and subsequent impact assessment, verification and evaluation of results and performances, and adjustment mechanisms by PBB; considers that steps should be taken to ensure that Member States' fiscal governance rules are homogeneous and context-driven in as regards both their timing and their objectives, in particular within the euro area; considers also that those fiscal governance rules should be linked to economic governance, with a view to promoting shared budgetary economic and investment options, being geared to the same goals in order to be more effective and have a multiplier effect, and achieving significant results, which are all the more necessary in difficult economic circumstances such as those currently being experienced; takes the view that there is a danger that uncoordinated national economic revival plans may cancel each other out; notes with this in mind that national budgets must be drawn up on the basis of joint economic perspectives and analyses;
38. Calls on the Commission and the Member States, in the light of the above, to set up a coordination mechanism to monitor and assess the quality of Member States' budgetary policies that is closely connected to the mechanisms of the SGP and implements the Lisbon Strategy integrated guidelines, based on systematic quality reporting, QPF assessment through a PBB system and periodic reviews of QPF;

\* \*

\*

39. Instructs its President to forward this resolution to the Council and the Commission.

## EXPLANATORY STATEMENT

The revised Stability and Growth Pact has proven to work rather well. Recent experience and future challenges highlights, however, a number of issues that need to be addressed. Taking into account of an ageing population, in particular stemming from expenditure increases in health and social protection, but taking also in account climate changing and globalisation, Member States need to make progress towards sustainable public finances. This means that the existing resources need to be used in a more productive and effective way. The European Commission report on Public Finances in EMU 2007 and the its report from 2008 raises many elements and questions for future improvements on economic governance of public finances both on EU and national level. These will be summarised below.

The focus of the Commission report '**Public Finances in EMU 2007**' was on ensuring the effectiveness of the preventive arm of the Pact. With a view to better assess the macroeconomic assumptions underpinning budgetary projections and to highlight risks the Commission stressed the need to move towards a broader economic appraisal of stability and convergence programmes. Another way of reducing the gaps between budgetary plans and outcomes would be to strengthen the link between national budgets and Stability and Convergence Programmes. In many cases, the Stability and Convergence Programmes have had a weak impact on the national budgetary process. A third avenue related to the question of whether and how the annual budget is based on medium-term policy plan. In this respect practice in Member States diverge. In some countries, developed national medium term frameworks were introduced in the past and are working well; in others the only instrument placing fiscal policy into a multi-annual context is the stability and convergence programme. The Council report of March 2005, which forms the basis of the reformed SGP, highlights the importance of domestic fiscal governance arrangements as complements to the EU framework. Against this background attention has been focused over the past years on the way fiscal rules and fiscal councils impact on the fiscal performance of EU Member States. A number of EU countries faced in the past systematic difficulties in respecting the medium-term budgetary targets set in their Stability and Convergence Programmes. The 'close to balance or in surplus' objective of the original Stability and Growth Pact became, in these countries, a moving target. Against this background, the finance ministers of the EU Member States decided, in the context of the 2005 SGP reform, to take concrete actions to strengthen the preventive arm of the Pact.

The Commission report '**Public Finances in EMU 2008**' focuses on the quality of public finances. According to this analysis Member States have significant scope to enhance the quality of public finances. A comprehensive fiscal policy approach that raises the quality of public finances is called for. Policy action can be more growth-friendly and competitiveness-enhancing through measures that help raise the efficiency of expenditure and revenue systems. First, sound overall public finances remain the key instrument for fiscal policy conducive to economic growth. High-debt countries have significantly lower medium-term growth and capital accumulation plays a less significant role for GDP growth due to crowding-out effects. Second, when public administrations become too large they tend to hinder economic growth in particular if they are associated with high tax burdens on labour and capital and inefficient use of public resources. Third, whether certain types of public expenditure are growth-enhancing largely depends on their ability to address market failures

and provide public goods. Fourth, revenue structures that limit distortions and disincentives are typically associated with higher growth. And finally, achieving results on all of the above fronts of quality of public finances need strong fiscal governance frameworks. To strengthen the focus on the quality of public finances in national budgetary policies, the Commission Communication identified a number of areas for action which build on the reformed Stability and Growth Pact and the Commission Communication on EMU@10. These key areas for action are: more systematic and comprehensive reporting; inclusion of performance information in budgetary procedures; enhancing the efficiency of tax systems; and establishing a regular review of the quality of public finances.

**The rapporteur's point of view.** In addition to the Commission's recommendations, the rapporteur has raised and developed specific aspects, suggestions and requests which are relevant to the current discussions on how to improve the quality and performance of public finances in EU.

The joint assessment of the situation of public finances over the last few years provides a clear picture of the intensity and scope of the change taking place and the danger of a slowdown in the economy and growth, together with a higher rate of inflation. Market shortcomings and regulatory and supervisory inadequacies call for public finance interventions, contrary to the hitherto prevailing view that responsibilities should be transferred from the state to the market.

The principle that quality and sustainable public finances are vital to individual countries and also to the future of the economy and the European social model that is intrinsic to the European Union's development is currently being confirmed and possibly even strengthened. The corrective aspect of the reformed SGP has provided good results. The Pact's preventive aspects now need to be intensified, not least by coordinating interventions, especially but not solely in the euro area, in an anticyclical manner and with shared and harmonised commitments. Steps should be taken to increase national ownership and to determine the relevant framework and obligations at subnational public finance level, which gives cause for concern as regards the use of derivatives and new financial instruments by local authorities.

It is also important that Member States place due emphasis on the medium-term objective (MTO) as a specific target of economic, budgetary and tax policies geared to their specific circumstances.

Public finances should be a key feature of a broader and more comprehensive economic perspective, closely linked to the Lisbon Strategy's integrated guidelines and based on support for investment, in particular in human capital, research and innovation, education and training, including higher education, health, infrastructure, the environment, security and justice. Efforts must be made to introduce a genuine European infrastructure public investments policy, funded partly by new financial instruments such as Eurobond or a European Investment Fund.

As regards demographic change, the approach should not be confined to the issue of the ageing population (and falling birth rate). Conversely, it would be wrong to focus solely on increasing productivity as a form of protection against the increase in the cost of living. Mechanisms must also be found to protect pensions.

Ensuring the quality and sustainability of public finances involves giving due consideration both to revenue and to expenditure. As regards revenue, steps must be taken to broaden the tax base, without however weakening the principle of progressive taxation, and to reduce the tax pressure on work, including measures to transfer it to other factors and/or sectors. As for expenditure, action must involve an assessment of the context, requirements, the composition of the population, with due consideration for gender policies and demographic change. Rather than introducing general, indiscriminate reductions, the aim should be to reorganise expenditure, partly by reallocating budget items and modernising public administrations.

This involves indicators, objectives and a system for assessing budgetary policies that link up resource allocation with results, based on a methodology called for and promoted by the European Parliament in the gender budgeting context. Good budgetary governance comprises a wide range of aspects, from context analysis to prior and subsequent impact assessments and adjustment measures. This increases transparency, comparability, familiarity, including among citizens, as well as trust and a sense of responsibility.

The Commission and Member States are therefore asked to develop coordination mechanisms to monitor and assess budgetary policies, to back up those of the SGP.

## RESULT OF FINAL VOTE IN COMMITTEE

<b>Date adopted</b>	11.12.2008
<b>Result of final vote</b>	+:           29 -:            0 0:            0
<b>Members present for the final vote</b>	Zsolt László Becsey, Pervenche Berès, Sharon Bowles, Udo Bullmann, Manuel António dos Santos, José Manuel García-Margallo y Marfil, Donata Gottardi, Louis Grech, Benoît Hamon, Othmar Karas, Wolf Klinz, Christoph Konrad, Sirpa Pietikäinen, John Purvis, Bernhard Rapkay, Salvador Domingo Sanz Palacio, Olle Schmidt, Margarita Starkevičiūtė, Ieke van den Burg, Sahra Wagenknecht
<b>Substitute(s) present for the final vote</b>	Mia De Vits, Alain Lipietz, Janusz Onyszkiewicz, Bilyana Ilieva Raeva, Theodor Dumitru Stolojan, Kristian Vigenin
<b>Substitute(s) under Rule 178(2) present for the final vote</b>	Michael Gahler, Monica Giuntini, Catuscia Marini